



THOMAS J. VILSACK , GOVERNOR
SALLY J. PEDERSON, LT. GOVERNOR

IOWA DEPARTMENT OF COMMERCE
CREDIT UNION DIVISION
JAMES E. FORNEY
SUPERINTENDENT

INTERPRETIVE BULLETIN

DATE: April 1, 1998

TO: All State Chartered Credit Unions

FROM: James E. Forney
Superintendent of Credit Unions

SUBJECT: Year 2000 Compliance and Approval of Expansionary Requests

The Credit Union Division, like other federal and state supervisory authorities, has intensified the need for Year 2000 readiness for its regulated financial industry. Assuring that computer systems and applications are Year 2000 compliant presents significant and complex managerial and technological challenges for credit unions, as it does for all public and private enterprises. Due to these challenges, we believe a need exists for a credit union to take into account their ability to ensure Year 2000 readiness before committing resources, whether human or financial, to other activities which propose mergers, acquisitions or other expansionary activities¹. At the same time, it is recognized that credit unions, while assuring Year 2000 compliance, must remain dynamic organizations capable of meeting the financial needs of current and potential members.

Effective immediately, the Division will consider a credit union's Year 2000 readiness and contingency plans in connection with applications requiring Credit Union Division approval for expansionary activities. This does not mean a credit union must assure complete Year 2000 compliance when seeking approval for expansionary activities, rather that it must have progressed to an appropriate level of readiness.

In other words, an applicant credit union must be able to demonstrate adequate Year 2000 readiness, that it is making progress in achieving compliance with it's Year 2000 contingency plan, and that it is compliant with current Year 2000 regulatory threshold guidelines. In particular, the credit union will be expected to address implications that the expansion plans would have on the resources that are devoted to it's year 2000 readiness efforts. Finally, the credit union must show that it has sufficient financial and managerial resources to ensure compliance as an expanded operational organization.

The Credit Union Division's increased interest in Year 2000-related application issues, in small part, stems from knowledge that a few credit unions have pre-determined that if they are not or will not be on schedule with respect to becoming Year 2000 compliant, they will seek to be merged. The singular reliance on a merger as a solution to a serious Year 2000 problem is a high risk, unacceptable plan of action. Even in cases where both the merging and continuing

credit union are on schedule with respect to meeting Year 2000 threshold dates, the management and computer staff (in-house or third-party provider) needed to support the continuing credit union's Year 2000 efforts, in many cases, is more than likely the same staff needed to complete conversions activities associated with the merger. Consequently, even absent Year 2000 constraining issues at either credit union, a merger can impede the continuing credit union's Year 2000 progress.

Application Approval Process. Upon receipt of an expansionary application proposal from a credit union, the Credit Union Division will evaluate the impact of the proposal on the prospective applicant's progress in becoming Year 2000 compliant-for itself as well as for any combined organization. In order to act favorably on an application proposed by a credit union, the Division will have to conclude that the applicant's Year 2000 contingency plan and compliance status is satisfactory², and/or that the proposed activity will have no material bearing on the credit union's ability to prepare for the Year 2000 due to the limited nature of the expansionary activity.

Most credit unions, like other financial institutions, rely heavily on computers to provide financial services to their members. Achieving Year 2000 compliance in mission critical systems is essential not only for maintaining the quality and continuity of services, but also for assuring the very survival of the organization itself. While the Credit Union Division and other financial institution supervisory agencies can provide guidance, encouragement, and strong formal and informal supervisory incentives to their respective industries to address the Year 2000 challenge, they cannot be responsible for ensuring or guaranteeing Year 2000 readiness and viability of each system used by the organizations they supervise.

Rather, the board of directors and senior management of each credit union must shoulder the responsibility for ensuring that they are able to provide high quality and continuous services beginning on the first business day in January of the Year 2000 and beyond. This critical obligation must be among the very highest of priorities for credit union management and boards of directors. We believe it is in this area where they should be focusing their resources in preparation and correction of deficiencies associated with the Year 2000 challenge, rather than diverting their resources elsewhere by engaging in certain expansionary activities.

[This Bulletin will expire January 1, 2001, unless rescinded or extended earlier by the Iowa Credit Union Division.]

¹ Expansionary activities include any application process requiring notification and approval of the Credit Union Division, e.g., merger, office facility, field of membership expansion, etc..

² Satisfactory means an acceptable level of performance is exhibited in all key areas of the Year 2000 project as set forth in the May 5, 1997, Federal Financial Institutions Examination Council's (FFIEC) Interagency Statement on the Year 2000 and subsequent guidance documents, including those published by the Iowa Credit Union Division and the National Credit Union Administration. Performance is satisfactory when project weaknesses are minor in nature and can be readily corrected within the existing project framework. The credit union's remediation progress to date meets or nearly meets expectations laid out in its Year 2000 contingency plan. The board of directors and senior management recognize and understand Year 2000 risk, are active in overseeing their organization's corrective efforts, and have ensured that the necessary human and financial resources are available to address this risk area. Where third party suppliers of data processing products and services are used by the credit union, an effective due diligence process manages this relationship. Investments and lending practices recognize and reflect the credit impact that the Year 2000 may have on large concentrations in instruments, institutions or borrowers.